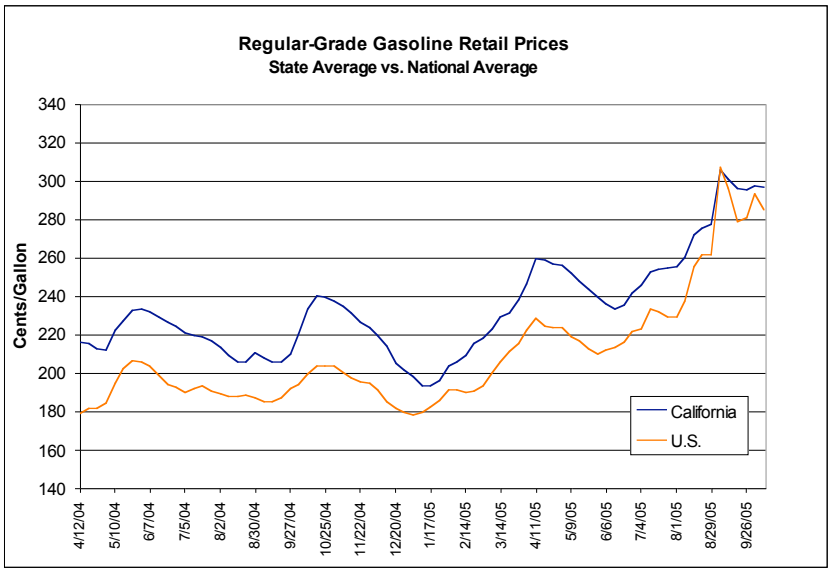
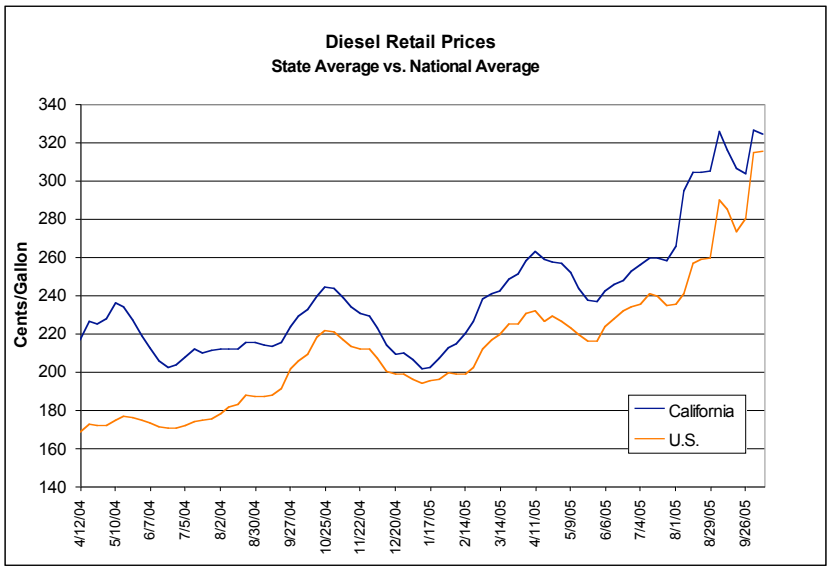
Petroleum Watch October 16, 2005

Retail Gasoline and Diesel Prices

- The statewide average retail price for regular gasoline fell a penny to $2.96 per gallon as of October 10. However, the difference between U.S. and California retail prices grew to almost 12 cents as U.S. prices fell 8 cents from the previous week's post-Hurricane Rita price peak.[1]



- California average retail diesel prices fell 2 cents from the previous week to $3.24 per gallon as of October 10. The difference between U.S. and California retail diesel prices narrowed further to just 9 cents per gallon compared to 12 cents the previous week.



Wholesale Gasoline and Diesel Prices

- California wholesale spot gasoline prices in the last week fell below $2 per gallon for the first time since August. Prices in Los Angeles were $1.97 per gallon on October 12, 43 cents below the post-Hurricane Rita high of $2.40. California spot prices again became more expensive than prices in the Gulf Coast. At the peak of volatility following Hurricane Rita, Gulf Coast prices were $3.45 per gallon on September 28, $1.05 more than Los Angeles. However, Gulf Coast prices fell $1.56 per gallon between September 28 and October 12. By October 12, prices in Los Angeles were 9 cents per gallon more than the Gulf Coast and 16 cents more than New York Harbor.

- Although they have fallen from post-Hurricane Rita peaks, wholesale spot diesel prices in California and elsewhere have resisted the precipitous price declines seen with gasoline following the storm. This is largely due to apprehension about the adequacy of winter supplies of heating oil. Spot diesel prices in Los Angeles have not fallen below $2.25 per gallon since the Hurricane hit, and as of October 12 were still $2.31, only 7 cents below the peak of $2.38 on October 4. Similarly, although diesel prices in the Gulf Coast region have fallen sharply since Hurricane Rita, on October 12 prices there were still $2.36, 5 cents more than in California.

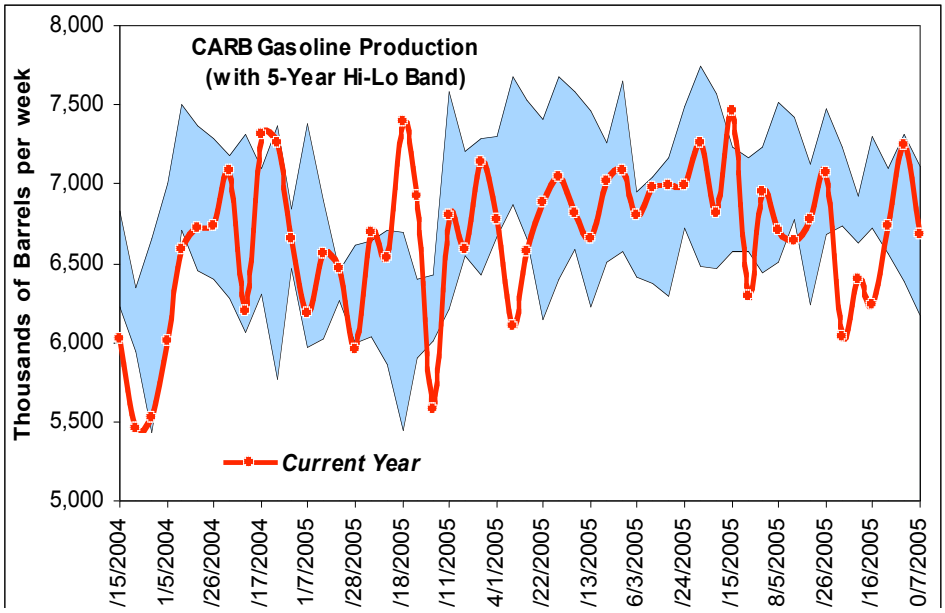
- The latest EIA weekly assessment shows U.S. gasoline demand at 8.8 million barrels per day, virtually unchanged from the previous week and less than 2 percent below last year. U.S. distillate demand was down almost 8 percent from last year.

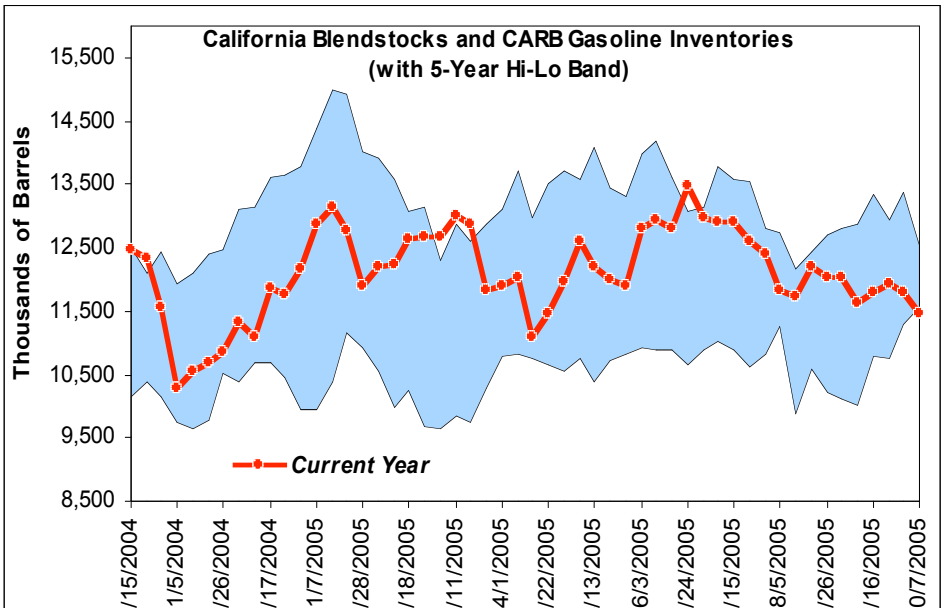
Refinery Production and Inventories

- Of the 16 Gulf Coast refineries shut down at the approach of Hurricane Rita, 3 remained closed on October 12. Added to the 3 refineries still shut down from Hurricane Katrina, total refining capacity off-line as of October 12 was about 1.6 million barrels per day, or roughly 10 percent of total U.S. capacity.

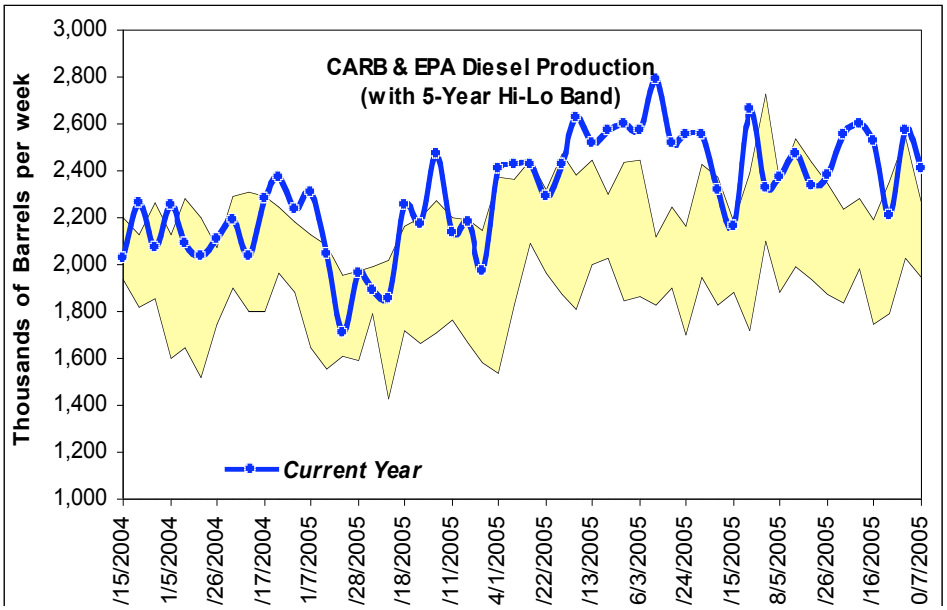
- Reformulated gasoline production in California fell back below 7 million barrels again, declining 8 percent from the previous week to 6.7 million barrels for the week of October 7.[2] The return to operation of California refineries shut down as a result of electricity outages in Los Angeles during September had increased weekly output in California during the week of September 30 to over 7 million barrels for the first time since late August. These levels were short-lived as new unplanned refinery outages cut into total production, and pulled output back down to near the five-year average.

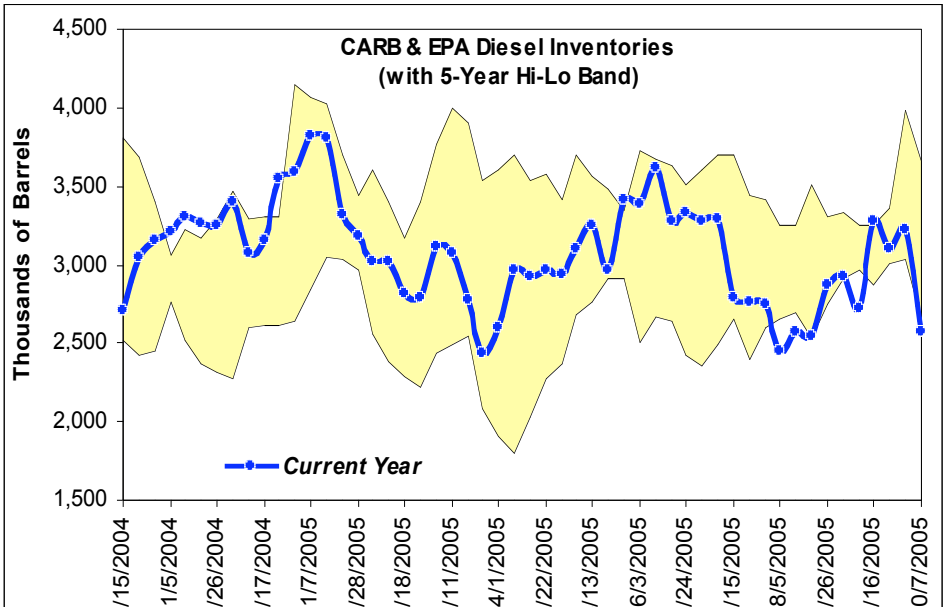
- Reformulated gasoline inventories in California also declined, falling almost 2 percent from the previous week and down 21 percent from last year. Gasoline blending components inventories were down as well, falling over 3 percent from the previous week, but were still 5 percent above last year. Combined inventories have fallen to the low end of the five-year range. U.S. reformulated gasoline stocks also dropped again, falling 2.7 million barrels from the previous week to 192.8 million due to the loss of refinery production following Hurricanes Katrina and Rita.





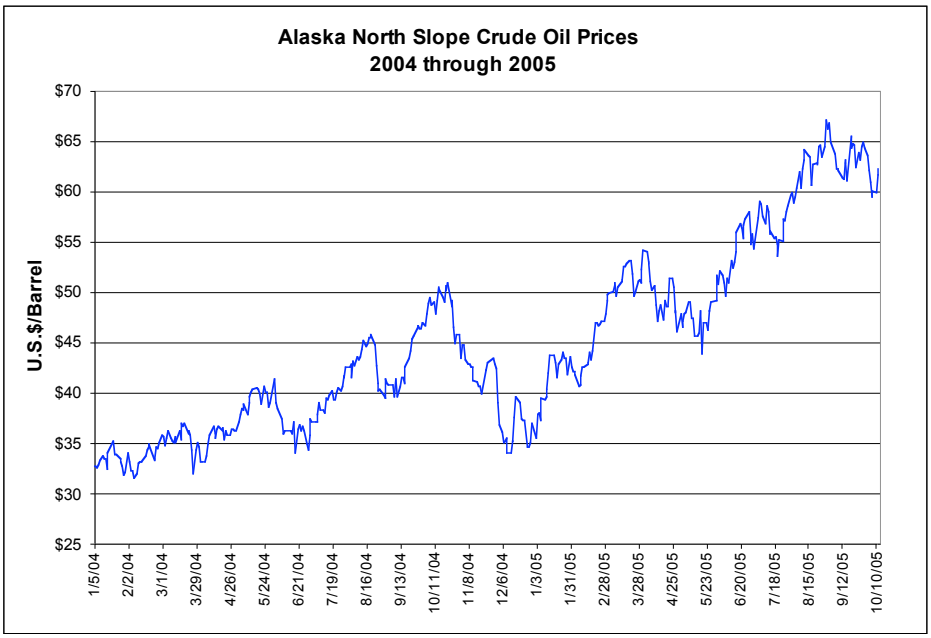
- California production of low sulfur diesel, including both California diesel and U.S. EPA diesel, declined over 6 percent during the week of October 7 compared to the week before. As a result of lower production and scarce imports, combined low-sulfur diesel inventories declined 20 percent from the previous week and 8 percent from a year ago. Despite state low sulfur diesel production being at the high end of the five-year range, as it has been most of the year, inventories have dropped again to the low end of their five-year range.





Crude Oil Prices and Inventories

- Crude oil prices continue to drift from the record highs of late August. Alaska North Slope crude oil, an important refinery feedstock for California, was priced at $62.22 per barrel as of October 12.[3]



- U.S. commercial crude oil stockpiles totaled 306.4 million barrels as of October 7, up 1 million barrels from the previous week, 28.2 million barrels more than last year, and 19.7 million barrels over the average of the previous 5 years.

- World oil supplies have been strained due to U.S. hurricanes, low levels of excess oil production capacity worldwide, and almost three years of high worldwide petroleum demand growth. At the same time, supplies have been supported by the release of oil and petroleum products from the International Energy Agency member countries' strategic reserves, the virtual lifting of Organization of Petroleum Exporting Countries production limits, high crude oil inventory levels, and signs of softening demand for gasoline.

- According to the Minerals Management Service, as of October 12 about 70 percent of U.S. Gulf of Mexico offshore oil production, almost 1.05 million barrels per day, was still shut down after Hurricanes Katrina and Rita. Almost 56 million barrels of crude oil production have cumulatively been lost to these hurricanes over the last seven weeks.

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[1] Spot wholesale and retail gasoline and diesel prices are from the Energy Information Administration of the U.S. Department of Energy.
[2] California refinery production and inventory information are from the Petroleum Industry Information Reporting Act (PIIRA) database maintained by the California Energy Commission.
[3] ANS crude oil prices are from the Wall Street Journal. U.S. crude oil and product inventory estimates are from the Energy Information Administration of the U.S. Department of Energy.